

VZCZCXRO7573  
RR RUEHGI RUEHMA RUEHROV  
DE RUEHKH #0031/01 0090845  
ZNR UUUUU ZZH  
R 090845Z JAN 08  
FM AMEMBASSY KHARTOUM  
TO RUEHC/SECSTATE WASHDC 9674  
INFO RUCNFUR/DARFUR COLLECTIVE  
RUCNIAD/IGAD COLLECTIVE  
RHMFISS/CJTJF HOA

UNCLAS SECTION 01 OF 02 KHARTOUM 000031

SIPDIS

DEPT FOR AF/SPG, S/CRS, AF SE WILLIAMSON  
ADDIS ABABA FOR USAU  
DEPT PLS PASS USAID FOR AFR/SUDAN

SQITIVE  
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E.O. 12958: N/A

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SUBJECT: BANK OF SUDAN ANNOUNCES CONVERSION TO EURO CITING U.S. SANCTIONS

¶1. (U) SUMMARY: The Central Bank of Sudan (CBOS) announced on January 7 that it converted its reserves to the euro and other currencies, and that it will no longer use the U.S. dollar for financial transactions. The CBOS named U.S. sanctions as one of the primary reasons for this change. Leading economic analysts and businessmen have been less than supportive of this decision, predicting this change will negatively impact Sudan's small businesses and that the CBOS will ultimately return to using the dollar. END SUMMARY.

¶2. (U) At a January 7 press conference, Dr. Sabir Mohamed Hassan, the Governor of the Central Bank of Sudan and his two deputies, Elijah Malouk and Bader El-Din Mahmmoud Abbas, announced that the CBOS completed the conversion of the bank's reserves from the U.S. dollar to other foreign currencies, primarily the euro, the sterling, and currencies from Arab Gulf states. Hassan stated that U.S. economic sanctions imposed on Sudan since 1997 are one of the primary reasons for this decision. Hassan specifically mentioned that the continued use of dollars has led to frozen assets, delays in transfers, and an overall increased risk of having any transaction blocked.

¶3. (U) Hassan stated that it is advisable, though not compulsory, for the private sector and Sudanese citizens to follow suit and avoid using the U.S. dollar. He added that the private sector and Sudanese citizens have the right to keep their accounts in U.S. dollars, but warned that these individuals must realize the risk involved with potentially having these transactions and transfers blocked.

¶4. (U) The Governor also stated that the CBOS completed the conversion of Sudanese Dinars (SD) to the new Sudanese Pound (SDG) in full compliance with the 2005 Comprehensive Peace Agreement. He stated that the total cost of this conversion was \$150 million dollars, as estimated by the International Monetary Fund. He stated that partners in the Intergovernmental Authority on Development (IGAD) and the international community provided \$40 million, international donors contributed \$30 million dollars, and the U.K. and Holland contributed \$10 million. He reported that only \$22 million of these funds were received and the remaining \$110 million will be paid by the Sudanese Government of National Unity (GoNU).

¶5. (U) On January 8, Abdel Rahim Hamdi, an ex-Minister of Finance turned businessmen and NCP advisor, told EconOff that the CBOS's conversion to the euro will have an impact on Sudanese businesses. He said that "businessmen will need to become aware of this change and react accordingly." Hamdi added that the CBOS needs to ensure that there are sufficient euros in Sudan for sustained business activity. He noted that small international businessmen will be impacted the most, particularly when working in geographic areas that prefer the dollar. Hamdi specifically mentioned that Arab Gulf

States prefer to operate with dollars, as oil is priced and paid for in U.S. currency. He also said that businessmen will be hurt by the one-half to one percent exchange fees that will incur when transferring their money back and forth between different currencies, and that this will ultimately hurt their profits. He noted "these business people might have to sacrifice a bit and they are apprehensive about this."

¶6. (U) Professor Ali Abdalla Ali, an advisor at the Khartoum stock exchange and lecturer of Economics at Sudan University, told EconOff on January 8 that the CBOS's move to the euro "is an emotional political reaction rather than sound economic policy." Ali predicted that the Sudanese will find this conversion to the euro unmanageable and "depending on the political mood" will return to the dollar in six months to a year. Ali also expressed concern about the value of the Sudanese Pound, as the exchange rate of the pound is managed with respect to the dollar. He also stated that if the CBOS's conversion to euro is to be successful, there will have to be a change in the overall mentality of Sudanese citizens "who prefer to calculate the value of items in dollars and Sudanese pounds, not the euro or other currencies."

¶7. (U) COMMENT: The CBOS's decision to move to the euro and other currencies represents one of the most significant and concrete actions taken by the Government of Sudan to circumvent U.S. sanctions. While the government immediately sold off some of its assets and placed minor restrictions on foreign currency transactions following the May 28, 2007 tightening of U.S. sanctions, the Government of Sudan repeatedly denied that these actions in May and June were related to U.S. sanctions. GoS officials and the CBOS leadership have all acknowledged that this latest move to the euro will mitigate the pressure of U.S. sanctions, though it remains to be seen whether this action will be economically tenable for months and years to come. END COMMENT.

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